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A CAHNERS PUBLICATION

INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

EDI IN ACTION

Parrish Keith Simmons triples business p. 37

EXCLUSIVE REPORT

To catch a thief PAGE 24

Northeast region primed for rebound p. 20

Advances increase cutting tool output p. 31

Customer awareness means win-win selling p. 45

Bill Wallick and Ken Jacobs team up to make a university more energy efficient.—p. 20

A distributor finds out an employee is a thief who steals to support his drug habit.—p. 24

Scott Parrish tells how he increased sales with EDI—p. 37

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FEATURES

20 From boom to bust & back again
As the Northeast suffers from the crippling recession, the area's distributors survive and continue to grow.

24 To catch a thief
A distributor is forced to play detective when product disappears. The trail leads to an employee with a drug addiction and $125,000 loss of merchandise.

31 New cutters take a bite out of tooling costs
Distributors must make end users more productive. Here's an update on how suppliers are helping them better service their customers.

37 How to survive and thrive with EDI
Does technology frighten you? Nashville's W. Scott Parrish shows how easy and cost effective it is to implement electronic data interchange.

MANAGEMENT

11 Editorial
Drugs in the workplace.

41 Pacesetters
Terry Cole, Magna Industrial Tools

67 Business Report
Capacity utilization rates start climbing.

68 Clifton's View
A new group pushes for change in American manufacturing.

SALES & MISC.

45 Strictly for Sales
Strategic selling takes more than simply pushing products.

62 Business Staff

60 Classified Marketplace

63 Distribution Mart

DISTRIBUTOR'S UPDATE

5 At Press Time
NFDA awards scholarships; Invetech buys Southern Bearing Service; Transply honored; Noland acquires Perry branches.

13 News
Dramatic changes ahead for safety equipment distributors; Carborundum honors distributors; Quality tops purchasing's list; Distributorships popular with investors.

PROFITABLE IDEAS

47 Computers
A look at remote control software.

49 Products for Profit
New products you can sell.

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Cowan said. "They don't want to make it more expedient for a businessman to hire a lawyer than to comply with the law."

While Cowan was referring to the legislative climate overall, he also addressed efforts by Congress to reform existing OSHA laws. One of the changes being discussed is to create a separate agency inside of OSHA for construction.

But there's more. Proposed legislation to increase criminal indictments for workplace offenders nearly passed last session, and both OSHA and the EPA are under pressure to refer more cases for criminal prosecution. State governments are getting tough too. Under California's *Corporate Criminal Liability Act*, a businessman can be imprisoned for merely "knowingly allowing harmful situations to exist."

How does all this impact distributors? Cowan said there's good news and bad news. The good news is that with all the emphasis on safety, distributors should find end users receptive to expanded safety programs. But on the downside, the industry must still contend with zealous regulators who would all but ban the use of safety equipment, emphasizing engineering controls instead.

"The bottom line is that you need to keep abreast of what is happening," Cowan said. "The increased pace of legislative activity will impact you and the safety equipment needs of your customers. ID

Broker says distributors are hot

WALNUT CREEK, CALIF.—Ernest DiMaria, Jr., president of Acquisition Management & Brokerage, says that small businesses like distributorships are popular with investors. Why? Because they are perceived as solid businesses with strong market positions and sound organizations.

According to DiMaria, despite the downturn in the economy, sales are always going on in the mid-market (see box). He reports that both 1990 and 1991 have been solid years for his company, a firm which specializes in sales and mergers of companies with values ranging from $1 to $30 million.

DiMaria says that he has arranged the sale of more than 100 companies, many of them distributorships. Most of his customers are located in Northern California, although his buyers come from all over the U.S. and overseas too.

Successful distributorships are sold for three reasons, says DiMaria. First, a distributor will sell when he retires and has no heir. Second, he'll sell when he has a disagreement with his partner. Third, when the original owner who made the business a success decides to either do something different or put the equity in more than one asset, he typically opts to sell.

What about industrial distributorships that become available because they are losing money? Notes DiMaria, "It's the wrong time to try to sell. You can't hide the fact that it's a distress sale. Potential buyers see it right away. Instead, shore up the business and wait it out until times are better."

DiMaria describes buyers as either economic or strategic. "Economic buyers look for an investment to make some money, then they get out." he says. "Strategic buyers are looking for something specific. It could be a product that broadens their line, or a particular location where they can sell their products. For strategic buyers, return on investment is a main factor." ID

THE SMALLER DEALS TAKE THE LEAD

(M&A activity by price and deal type)

Value ($ mil)	Divestitures 1989	Divestitures 1990	Acquisitions 1989	Acquisitions 1990	Total 1989	Total 1990
$1.0-5.0	68	91	124	144	192	235
$5.1-10.0	53	57	72	95	125	152
$10.1-15.0	45	40	44	57	89	97
$15.1-25.0	58	45	69	70	127	115

Source: M&A Data Base ADVANC/Publishing

Sales of mid-sized companies have increased in the past two years.

PA's say quality's #1

NEW YORK CITY—Purchasing agents value product quality above all else when buying goods or services from their suppliers and distributors, according to a recent survey of 379 purchasing professionals.

The survey, conducted in June by *Thomas Register*, also points to reliability, service, delivery time, and availability as the other key factors that sway purchasing's decisions.

Pat Daloisio, *Thomas Register's* Associate Publisher, noted that the top five attributes cited by purchasing agents broke down as follows:

- Product quality (83%)
- Reliability (73%)
- Service (70%)
- Delivery Time (58%)
- Availability (51%)

Notes Daloisio, "Manufacturers are no longer checking for quality at the end of the line, but every step of the way. And purchasing agents are the front end of the equation. They set and maintain quality standards for products used throughout the manufacturing process."

According to Daloisio, *Thomas Register* plans to conduct periodic surveys of purchasing agents on an open-ended basis throughout the year. The data is based on responses from a random sampling of the company's subscriber list.

Some of the other findings of the initial survey are of keen interest to distributors. For example, purchasing agents say they will spend 12% of their 1991 purchasing budgets on new technology. In addition, 10% of the PA's said their company will purchase a wide range of environmental products and services, including waste-to-engery disposal, spill cleanup and asbestos removal services.

Purchasing agents were also upbeat on economic prospects for the second half of 1991. According to the survey, 70% said the economy will turn around in less than a year.

"Corporate executives, consultants and analysts often color their prediction with hopeful expectations," Daloisio said. "But purchasing agents are more likely to focus on the immediate needs and concerns of a business. If purchasing is on the rise, it's a good bet that the business climate is improving."

For more information, or a summary of the survey's results, call (800) 222-7900. ID

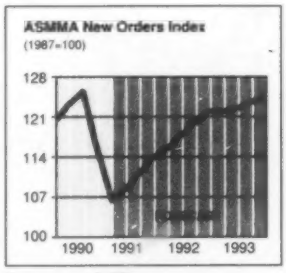
By Paul Waters

Capacity utilization rates inch up

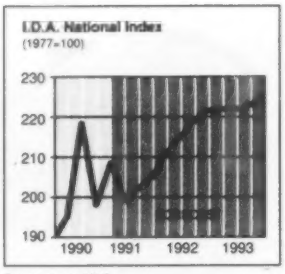
Advanced and primary processing rebound into '93.

Capacity utilization has finally shown signs of stabilizing recently. From October 1990 to March 1991, the average operating rate in manufacturing slid from 82.2% to 77.2%. American industry was clearly trimming production schedules to cope with plummeting demand. Since March, however, manufacturing capacity utilization has consistently increased.

Capacity utilization is forecasted to continue with steady increases through 1992. The rebound will be far from stellar, though, so manufacturing capacity utilization will not attain rates seen during the last expansion. The high is expected to be near 82% at the end of 1993, as opposed to a peak of 85.1% in January 1989. Operating rates will average 78.3% this year, followed by an 80.8% average in 1992. Expect rates to hover near 81.5% in 1993.



Data source: ASMMA
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

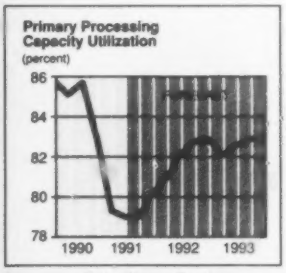
Advanced processing industries, such as transportation, machinery, and other durable goods, will see operating rates average about 77.5% this year on the strength of a year-end rebound. These rates are above average for recessionary periods, suggesting that the rebound will create solid gains in capital spending. Next year will see rates around 80%, while in 1993 nearly 81% of productive capacity will be used.

For primary processing, which includes materials such as steel and plastic, operating rates will average about 79% this year and 82.2% in 1992. Expect them to creep up to 83% in 1993.

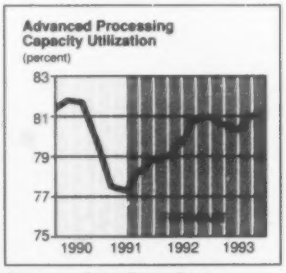
Not surprisingly, production levels also have been indicating that the recession ended early in the third quarter. Capital goods production, for example, usually follows the process industries by several months in the cycle, but not this time. With output bouncing up 0.9% in April, 0.5% in May, and 0.8% in June, the OEM industries are growing as fast as non-durables.

A strong demand for America's goods overseas boosts durables. Europe continues to enjoy a capital spending boom, stimulating U.S. exports. The materials industries are also benefiting from strong foreign demand, especially plastics and paper.

The outlook is bright for industrial production. The OEM expansion will continue for two years, with output growing 5.8% in 1992 and over 2% in 1993.



Data source: Federal Reserve Board
Forecast source: Cahners Economics



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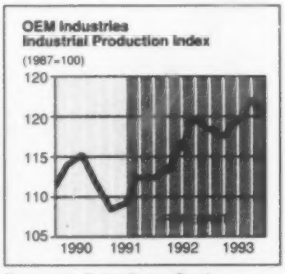

Data source: Federal Reserve Board
Forecast source: Cahners Economics

Data source: Federal Reserve Board
Forecast source: Cahners Economics

(1977=100)	SALES June 1991	SALES May 1991	SALES June '91 vs June '90 % change	RECEIVABLES June 1991 days	INVENTORY June-May 1991 % change
TOTAL	190.8	216.8	-4.6	55.3	-0.6
EAST	184	201.8	5.3	49.5	-0.5
SOUTH	316.4	358.7	11.2	71.3	0.6
CENTRAL	148.8	158.8	-10.3	46.1	-1.1
WEST	198.4	214.8	-7.1	38.5	-0.4

SOURCE: Industrial Distribution Assn.

CLIFTON'S VIEW

By Robert G. Clifton

U.S. manufacturing needs change now!

A new organization pushes for a new era in American manufacturing.

Let's face it. U.S. manufacturing—distribution's prime customer—has declined in the past ten years. Unlike our competitors abroad, Americans have been slow to invest in new plants and equipment, and even slower to adopt advanced manufacturing technology. (See box)

As a result, U.S. manufacturers have lost market share in a number of industries. Our economy continues to be burdened by a large—only slightly shrinking—trade deficit. In addition, the U.S. growth rate in output-per-man hour has dropped.

Many private organizations are attacking pieces of the problem, but little has been done to coordinate efforts. Now, a new broadly based organization has sprung upon the scene. The National Coalition for Advanced Manufacturing (NACFAM) is dedicated to treating the whole issue. Chairman of NACFAM's Board of Advisers is Dr. D. Bruce Merrifield, former Assistant Secretary of Commerce and father of well known industry speaker and consultant Bruce Merrifield.

NACFAM intends to push for a variety of government actions. But the organization is aware of bureaucratic control dangers. According to a spokesperson, "The NACFAM program for federal help emphasizes avoiding government controls in any form." To accomplish that goal NACFAM's strategy is to address the nation's infrastructure as a whole. Specifically, says NACFAM, "Government policy should not substitute corporate competitiveness." Further, the organization acknowledges that competition in the private sector is primarily the responsibility of individual companies.

Several associations have joined NACFAM as supporters. Those with close ties to distribution include the National Assn. of Purchasing Managers, the American Welding Society, the National Assn. of Electrical Manufacturers, and the National Tooling and Machining Assn.

Texas A&M, which is important to our industry, is a member. Many individual companies also have joined. Companies with less than 100 employees pay $500 for annual dues. Membership privileges include access to NACFAM's research results and admittance to the educational meetings. You can learn more about NACFAM by purchasing a copy of their white paper "Industrial Modernization: An American Imperative." Phone your request to (202) 347-0090. The report costs $8.00.

NACFAM's report outlines the organization's basic strategies. A partial list of their recommendations follows:

- Create a national commission to review the progress of technological upgrades in the U.S.
- Accelerate plant refurbishing by applying available federal R&D funds.
- Develop and raise the skill level of the work force.
- Provide tax credit incentives for costs of modernizing plants and equipment.

Most technology is useful for distributors as well as manufacturers. NACFAM has targeted various computerized advances for special attention, such as bar coding for both the shop floor and shipping and receiving.

Most importantly, action in the form of improved manufacturing efficiency is needed now. We can't expect the government to do it for us, although government can help when intelligently advised by the private sector. NACFAM's summary statement says it well: "America has the means to restore its global preeminence in manufacturing. If we fail to marshal our resources for greater industrial modernization and productivity, the erosion of our economic strength and standard of living will be irreversible."